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Oldfield Partners

Overstone UCITS Global Smaller Companies Fund

Patient, unconstrained, contrarian value investing

Quarterly Newsletter | Q1 2025

Investment objective

The objective of the Fund is to attempt to achieve over the long term a total return in excess of that of the MSCI World Small and Mid Cap Index (with net dividends reinvested). The Fund seeks to achieve its objective through investment in a concentrated portfolio of equity and equity-related securities of primarily small and medium-sized companies, selected from all the major markets and to a lesser extent from emerging markets worldwide. The approach is focussed on valuations and bottom-up fundamental research of individual companies.

Fund particulars

Manager	Harry Fraser
Launch date	01 October 2007
Domicile	Ireland
Structure	UCITS
Base currency	USD
Dealing	Daily
Min. investment	£10,000
IA sector	Global
Benchmarks	MSCI World Small Mid Cap MSCI World
Fund size	£29.4m
Strategy size	£29.4m

“A concentrated portfolio concentrates the mind...”

About Oldfield Partners

Oldfield Partners LLP is an owner-managed boutique fund management firm which manages equity portfolios for a global client base that includes endowments funds, pension funds, charities, family offices and individuals.

Oldfield Partners began operations in March, 2005 and is majority owned by the executive partners.

We are value investors with a distinctive approach: a limited number of holdings, long-only, no leverage, diversified, index-agnostic and suspicious of short-termism.

All data as at 31 March 2025.
Source: Oldfield Partners.

Fund performance (GBP, %)

					Annualised		
	1 month	QTD	YTD	1 year	3 years	5 years	Since 2012*
Fund (I shares)	-4.6	-3.9	-3.9	-1.8	+4.6	+14.3	+9.4
MSCI World Small Mid Cap	-5.7	-4.7	-4.7	-0.5	+3.2	+12.7	+10.6
MSCI World	-6.8	-4.7	-4.7	+4.7	+8.2	+15.2	+12.4

Preceding five calendar years performance	2024	2023	2022	2021	2020
Fund (I shares)	-1.1	+23.4	-6.4	+8.5	+4.5
MSCI World Small Mid Cap	+11.7	+9.6	-9.3	+17.7	+12.5
MSCI World	+21.0	+17.3	-8.4	+22.9	+12.6

The Class I shares (I USD) launched on 01 October 2009. The Overstone Smaller Companies Fund merged into the Overstone UCITS Global Smaller Companies Fund on 13 September 2016. The performance shown for the I shares is that of the Overstone Smaller Companies Fund, from inception up to 13 September 2016 and of the Overstone UCITS Global Smaller Companies Fund onwards. *Reflects the period from when Harry Fraser became portfolio manager of the Global Smaller Companies strategy, on 01 January 2012. Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders. MSCI World is for comparison purposes only. Source: Oldfield Partners.

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not a guide to future performance.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
J D Wetherspoon	9.0	-6.9	-7.9
First Pacific	7.9	+0.9	+1.1
Serica Energy	7.7	+6.2	-0.6
Hellofresh	7.0	-32.9	-32.7
Jet2	6.8	-11.8	-21.5
Draegerwerk Pref	4.8	+19.3	+39.2
Warsaw Stock Exchange	4.8	+11.6	+16.0
Frasers Group	4.7	-0.7	+2.1
Trigano	4.4	-21.0	-13.7
Eurobank	4.2	0.0	+12.1

*Total return in GBP, reflects ownership period.

Characteristics

	Fund	Benchmark
P/E ratio (fwd)	7.8	15.8
P/B ratio (hist)	1.2	2.0
Gross div. yield (fwd)	4.1	2.7
Active share (%)**	99.9	

**Active share is calculated using the sum of the absolute value of the differences of the weight of each holding in the manager’s portfolio versus the weight of each holding in the MSCI World Small Mid Cap index, divided by two.

Country breakdown (%)

United Kingdom	32.4
Germany	11.8
Japan	9.4
China/Hong Kong	9.3
Canada	8.0
United States	7.5
Poland	4.8
France	4.4
Greece	4.2
Turkey	2.2
Italy	2.1
South Korea	2.1
Switzerland	1.5
Cash	0.3

Sector breakdown (%)

Consumer Discretionary	23.8
Consumer Staples	17.0
Energy	15.4
Industrials	10.3
Financial Services	8.3
Communication Services	6.0
Health Care	4.8
Banks	4.2
Insurance	4.1
Real Estate	2.3
Information Technology	2.2
Utilities	1.2
Cash	0.3

Fund manager commentary

Overview

Most of the companies in the strategy reported their annual results in the first quarter which were largely satisfactory. 'Look-through earnings' are now double what they were at the end of 2019 (pre-pandemic) and are expected to grow by over 20% this year. The return on equity of the portfolio is near its highest at 15% and the forward PE is close to its lowest at less than eight times. There are, of course, significant geopolitical uncertainties but we think the low valuations of these fundamentally good and well-run companies more than compensate for the additional macro risks.

Negative contributors

There are signs of a weakening consumer in the United States, so it is perhaps not surprising that **Allegiant Travel**, a US airline exposed to leisure travel, was the worst performer in the quarter. The company had already been struggling from a difficult 2024, which had seen significant labour cost increases (+19%) as well as continued disappointing performance from its Sunseeker hotel. Towards the end of 2024, there were signs of improvement with moderating labour and fuel costs and strengthening demand; however, a weakening consumer in recent months has already resulted in the company reducing capacity growth and lower ticket prices.

We remain attracted to Allegiant Travel because of its focus on leisure traffic from under-served cities with limited competition on its routes. This, along with a low-cost distribution channel, has historically resulted in industry leading margins and returns on capital. Maurice Gallagher, the founder and Chairman, owns 12% of the business which provides good alignment and reduces the likelihood of major capital allocation mistakes (Sunseeker being the notable exception) which is particularly important in the capital-intensive airline industry.

From a valuation perspective, the company has almost never been cheaper at less than book value. Before the pandemic, Allegiant was making net margins in the teens; while we do not anticipate the company returning to those lofty levels, the company's competitive position remains strong and we think that 8% net margins should be attainable. The current market capitalisation is just four times those 'recovered earnings.'

HelloFresh was the other main detractor. After over a decade where growth has been the focus, management has pivoted to focussing on profitability. The company is rationalising its logistics footprint and reducing marketing to focus on its core customers. This new approach will result in higher profitability and significantly higher free cash flow in the years ahead.

Normally a profit upgrade would result in strong share price performance; however, most market commentators continued to focus on the top line and customer numbers which perhaps explains the weak share price performance. Nevertheless, Dominik Richter (CEO) bought shares following the results and the company continues to buy back stock in the market, reducing its share count. AO World, another strategy holding, went through a similar pivot three years ago: as the profits came through, the share price nearly tripled. Like HelloFresh, AO World was heavily shorted, so the stock benefitted from additional buyers as fundamentals improved.

Positive contributors

CuriosityStream, the factual streaming company, was the standout performer in the quarter. The company significantly increased its dividend and expects to return to growth this year as it benefits from new licences and increased advertising revenues. The company has a quarter of its market capitalisation in cash, is expected to be highly free cash flow generative and will not have to pay taxes at least until the end of this decade because of its significant deferred tax losses.

The other top performer was **Draegerwerk**, the German medical equipment company. The company saw decent growth in order intake as new products were well received in their Safety division. Draeger is now prioritising profitability and operational efficiency which is resulting in improved margins. Management hopes to increase profit margins by 100 basis points a year for the next three years. Draeger trades on just nine times earnings and, if management can deliver on their margin expansion plans, it will be on just four times earnings in three years' time. The balance sheet remains healthy so, with a solid outlook, management was able to raise the dividend 13%.

Conclusion

On average, our companies are expected to grow both revenues and profits healthily this year. Over half the portfolio companies have bought back shares in the last year and we would expect a similar percentage in the year ahead. The gross dividend yield of 4.1% is the highest in the strategy's history. Low valuations and solid growth make us optimistic that returns will be good in the coming years.

Share class details

Share class	AMC*	OCF**	SEDOL	Bloomberg	ISIN	Price
I USD	0.65%	1.00%	BD3H6C2	OCUSCIU ID	IE00BD3H6C20	US$279.70
A USD	1.00%	1.35%	BD3H688	OVUSCAU ID	IE00BD3H6883	US$184.31
I GBP Unhedged (formerly Hedged)	0.65%	1.00%	BD3H6D3	OVUSCIG ID	IE00BD3H6D37	£164.41
I GBP	0.65%	1.00%	BL53TS1	OVGSCOU ID	IE000SKL79B0	£101.91

*AMC - Annual management charge
**OCF - Ongoing charge figure

Performance summary of all share classes

Performance in USD terms				Annualised		
	1 month	YTD	1 year	3 years	5 years	2012*
I USD	-2.2	-0.9	+0.4	+4.0	+15.2	+7.9
A USD	-2.2	-1.0	0.0	+3.6	+14.7	+7.5
I GBP	-2.2	-0.9	+0.5	+4.0	-	-
MSCI World Small Mid Cap	-3.3	-1.8	+1.8	+2.6	+13.6	+9.1
MSCI World	-4.5	-1.8	+7.0	+7.6	+16.1	+10.8

Performance in GBP terms				Annualised		
	1 month	YTD	1 year	3 years	5 years	2012*
I USD	-4.6	-3.9	-1.8	+4.6	+14.3	+9.4
A USD	-4.6	-4.0	-2.2	+4.2	+13.8	+9.0
I GBP	-4.6	-3.9	-1.7	+4.6	-	-
MSCI World Small Mid Cap	-5.7	-4.7	-0.5	+3.2	+12.7	+10.6
MSCI World	-6.8	-4.7	+4.7	+8.2	+15.2	+12.4

				Annualised	
GBP Unhedged (formerly Hedged) shares	1 month	YTD	1 year	3 years	5 years
I GBP Unhedged (formerly Hedged)	-4.6	-4.2	-0.2	+4.9	+14.9
MSCI World**	-6.8	-4.9	+4.8	+7.1	+15.4

The Overstone Smaller Companies Fund merged into the Overstone UCITS Global Smaller Companies Fund on close of business 13 September 2016. The performance shown for the A and I shares is that of the Overstone Smaller Companies Fund, a sub-fund of Overstone Fund plc, from inception up to 13 September 2016 and of the Overstone UCITS Global Smaller Companies Fund from the 14 September 2016 onwards. Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.
MSCI World index is for comparison purposes only.
*Since 2012 performance reflects the period from when Harry Fraser became portfolio manager of the Global Smaller Companies strategy, on 01 January 2012.
**MSCI World GBP Hedged to 7th January 2025, and MSCI World thereafter.
Source: Oldfield Partners.

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